



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427

October 27, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo  
Auditor-Controller

A handwritten signature in blue ink, reading "John Naimo", is written over the printed name and title.

**SUBJECT: PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW –  
PROBATION DEPARTMENT – FISCAL YEAR 2014-15**

In October 2013, your Board directed the Chief Executive Office (CEO) to develop a schedule of recommended audits (Attachment II) for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. The Probation Department (Probation or Department) was recommended, per our attached audit schedule, as one of the first departments for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$80.8 million was significantly higher than most departments' AB109 budgets. The schedule also identified that we review Probation quarterly in FY 2014-15 (with the frequency of the audits subject to the significance of previous audit findings). On November 3, 2014, we issued our first Probation AB109 review report covering a sample of FY 2013-14 AB109 expenditures.

For this second audit, our report compares Probation's AB109 expenditures with budget for FY 2014-15. We reviewed a sample of transactions from the first half of FY 2014-15 to evaluate the Department's internal controls over AB109 fiscal operations. Our review identified that Probation should ensure they only report overtime costs for AB109 activities, claim employee benefits applicable to overtime costs, and accurately calculate the salaries for employees who worked part-time on AB109. Details of our findings are included in Attachment I.

We discussed the results of our review with Probation management. The Department indicated general agreement with our findings.

We thank Probation management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachments

c: Sachi A. Hamai, Chief Executive Officer  
Jerry E. Powers, Chief Probation Officer  
Public Information Office  
Audit Committee

**PROBATION DEPARTMENT  
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW  
FISCAL YEAR 2014-15**

**Background and Scope**

The State establishes an annual amount of Public Safety Realignment Act (AB109 or Program) funding to the County. The County is required to use the Program's funding for services directed toward designated incarcerated individuals and post-prison release populations, such as certain categories of State probationers. AB109 transferred community reintegration and supervision responsibility for these probationers from the State to the County. The State provides funding on a monthly basis to the Auditor-Controller (A-C) who holds these funds in trust, and the Chief Executive Office (CEO) establishes annual AB109 funding budgets in consultation with each department, subject to Board of Supervisors' (Board) approval.

The CEO and A-C require departments to submit expenditure claims with their AB109 costs (i.e., salaries, employee benefits, applicable overhead rates, etc.) on a quarterly basis. The CEO and A-C then reimburse each department from the trust account up to their budget. Departments must use their general fund for expenditures that exceed their annual AB109 funding budget unless the Board approves the use of AB109 reserves. In addition, any unused AB109 funds are retained in the trust account for future AB109 use.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits for all departments that receive AB109 expenditure reimbursements. The Probation Department (Probation or Department) was recommended, per our attached audit schedule (Attachment II), as one of the first department's for audit because their Fiscal Year (FY) 2013-14 AB109 funding budget of \$80.8 million was significantly higher than most departments' AB109 budgets. The schedule also identified that we review Probation quarterly in FY 2014-15 (with the frequency of the audits subject to the significance of previous audit findings). On November 3, 2014, we issued our first Probation AB109 review report covering a sample of FY 2013-14 AB109 expenditures.

For this second audit, our report compares Probation's AB109 expenditures with budget for FY 2014-15. We reviewed a sample of Probation's AB109 expenditures from the first half of FY 2014-15, totaling approximately \$43.2 million, to ensure they were accurate, complete, and were for AB109 activities/functions. We also evaluated the adequacy of their internal controls, including a review of Probation's adult probationer population data. Our review indicates that while Probation implemented most of the recommendations from our previous audit, they can still improve the accuracy of their reported AB109 expenditures and their internal controls. Below are the detailed findings.

### **AB109 Funding and Cost Reporting**

The California State Association of Counties (CSAC) determines the annual amount of AB109 funds allocated to each county based on negotiations between the CEO, representatives from other counties, and CSAC. The CEO then works with each department impacted by AB109 to recommend their annual budgets. The State provides funding on a monthly basis to the A-C who holds these funds in trust until departments claim and receive quarterly reimbursement. Quarterly reimbursements are capped at 23% of the annual budgets, with the remaining 8% allocated to year-end reimbursements. For FY 2014-15, Probation's AB109 budget was approximately \$75.8 million.

While reimbursements are limited to each department's AB109 budget, departments should report their actual costs regardless of the amount reimbursed. As detailed in Table 1 below, Probation's reported cost for FY 2014-15 was approximately \$85.1 million, resulting in underfunded expenditures totaling approximately \$9.3 million.

**Table 1**  
**Comparison of Probation's Budgeted and Actual AB109 Costs**

	July to Sept. 2014	Oct. to Dec. 2014	Jan. to March 2015	April to June 2015	Total
Budget	\$ 17,435,150	\$ 17,435,150	\$ 17,435,150	\$ 23,499,550	\$ 75,805,000
Direct Costs (Salaries, Services & Supplies, etc.)	\$ 13,662,789	\$ 20,287,823	\$ 17,595,345	\$ 16,794,016	\$ 68,339,973
Indirect Costs (Program overhead)	\$ 4,574,799	\$ 4,666,102	\$ 3,236,941	\$ 4,264,263	\$ 16,742,106
Total Reported Costs	\$ 18,237,588	\$ 24,953,925	\$ 20,832,286	\$ 21,058,279	\$ 85,082,078
Amount Overfunded / (Underfunded)	\$ (802,438)	\$ (7,518,775)	\$ (3,397,136)	\$ 2,441,271	\$ (9,277,078)
	-5%	-43%	-19%	10%	-12%

We discuss our review of the Department's reported costs in detail below.

### **AB109 Population**

As detailed in Table 2 below, the adult probationer and Post-Released Supervised Persons (PSP or AB109 population) population has decreased slightly over time. Probation management indicated that this is due to the anticipated gradual decrease in State released prisoners who require County supervision as AB109 is implemented, and due to the passage of Proposition 47 in November 2014, which reduced the sentences for certain drug-related crimes.

**Table 2**  
**Comparison of Total Adult Probationer Population to the PSP Population**

County Adult Probationer Population	As of:		
	06/30/13	06/30/14	06/30/15
PSP Population*	9,826	8,389	7,725
Total Adult Probationer Population*	53,659	51,007	43,406
PSP / Total Adult Probationer Population	18%	16%	18%
* Totals represent the number of adult probationers on the last day of the month as reported by Probation's Adult Probation System.			

As of June 30, 2015, Probation was monitoring 7,725 AB109 PSPs (or 18% of the Department's total adult probationer population). We reviewed a sample of PSP records for FY 2014-15 and noted that Probation's PSP records indicated that they were part of the AB109 population.

### **Overtime and Related Costs**

Departments may claim costs for overtime hours worked on AB109. In addition, departments are eligible to claim employee benefits (EBs) applicable to those overtime costs. For the first two quarters of FY 2014-15, overtime comprised approximately \$608,000 of the \$43.2 million in total reported AB109 expenditures.

We reviewed the salary cost for 25 employees, and identified six who reported AB109 overtime expenditures for the period reviewed. We reviewed all six employees, and noted that overtime worked by three (50%) employees was for non-AB109 duties, and therefore, their overtime costs of \$4,200 should not have been reported as AB109 expenditures. In addition, Probation did not apply EBs and overhead to eligible AB109 overtime for the remaining three employees. As a result, the Department under-reported EB costs by approximately \$1,500 and overhead by approximately \$1,700 for the employees sampled.

Department management indicated that the errors identified above were due to oversights, and that they will determine the correct amount of reportable overtime and overhead costs and submit a claim adjustment. In addition, the Department indicated that they will ensure all reported overtime costs are for hours worked on AB109, and that they apply EBs and overhead to eligible overtime in future claims.

### **Salary Calculation**

In our previous report, we noted that the Department over-reported salary costs due to data entry errors of the percentage of time worked for employees who worked part-time

on AB109. We recommended that Probation management begin using "project codes" in the County's electronic Human Resource (eHR) system to track time spent on individual projects and minimize the risk of data entry errors.

We noted that the Department is not yet using eHR project codes and is continuing to make data entry errors in the reported expenditures for employees who worked part-time on AB109. We reviewed the salary costs charged for 25 employees, totaling approximately \$312,000, and identified five employees who worked part-time on AB109. We reviewed all five employees' salary costs and noted that the Department misreported (over-claimed) the costs for all five (100%) employees by approximately \$3,800. It should be noted that the vast majority of the claimed salary costs are for employees who worked full-time on AB109. However, the Department should continue working to improve their reporting of part-time employees' AB109 costs.

Probation management indicated that they will submit a claim adjustment for the over-claimed salaries, and implement an additional review to ensure staff accurately record and report AB109 salaries. In addition, Department management indicated that they will evaluate implementing "project codes" in eHR.

### **Services and Supplies Costs**

In our previous report, we noted that the Department included certain Services and Supplies (S&S) expenditures as both direct and indirect (overhead) charges on their reported AB109 expenditures.

During this audit, we reviewed a sample of S&S expenditures totaling approximately \$2 million and noted that the Department appropriately reported their AB109 S&S expenditures.



WILLIAM T FUJIOKA  
Chief Executive Officer

County of Los Angeles  
**CHIEF EXECUTIVE OFFICE**

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

February 25, 2014

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in blue ink, appearing to be "W. T. Fujioka", is written over the printed name and title.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

**PUBLIC SAFETY REALIGNMENT: FIRST QUARTERLY REPORT ON BUDGET  
AND PROGRAM PERFORMANCE MEASURES (ITEM 94-B, AGENDA OF  
OCTOBER 8, 2013)**

On October 8, 2013, the Board of Supervisors directed the Chief Executive Officer to initiate quarterly budget and performance reports for the Public Safety Realignment Act (AB109), including:

- a) A summary of revenue and expenditures;
- b) Narratives to explain the variances between expenditures and budget;
- c) A comprehensive list of items that have been funded with one-time revenue, but require ongoing funding commitments; and
- d) Updates on programmatic priorities and achievements of stated outcomes.

In addition, the Board requested the development of a fiscal audit schedule and options to evaluate the AB109 programs and services delivered by County departments and community-based organizations.

**REVENUE AND EXPENDITURES**

The State's Fiscal Year (FY) 2013-14 Budget allocated \$338,130,000 to the County for AB109 programs and services. As of January 31, 2014, the County has received \$156,968,000 or 46 percent of the budget allocation.

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The Auditor-Controller (A-C) established trust accounts specifically for the remittance of AB109 funds from the State. Although funds are allocated to County departments, these funds remain in the trust accounts and are not distributed to the departments until the Chief Executive Office (CEO) and A-C approve quarterly claims for reimbursement of AB109 related costs. Claims are submitted during the month following the close of each quarter. Given the State's AB109 remittance schedule runs from a September through August calendar, compared to the County's fiscal calendar, a cap has been placed on the quarterly claims for cash-flow purposes. Any claims exceeding the quarterly cap will need to be absorbed by the department until the end of the FY; whereupon, any unreimbursed claims will be reconciled up to each department's annual AB109 budget allocation. Should a department's AB109 claims result in a fiscal year-end deficit, the CEO may recommend the Board utilize any remaining allocations from other departments or tap into the AB109 Reserve to make the department whole; otherwise, the department will absorb those AB109 costs within its regular budget.

For FY 2013-14 County departments have been reimbursed \$136,420,000 or 40 percent of the budget for AB109 claims submitted through January 31, 2014 (Attachment I). The second quarter claims for several departments are still pending CEO and A-C review prior to disbursement.

As reflected in Attachment I, the Probation Department (Probation) and Sheriff's Department (Sheriff) have exceeded their respective quarterly caps by a combined \$8,094,000. We anticipate Probation and Sheriff will end the FY with AB109 deficits; however, there may be savings in the other departments that may be used to mitigate AB109's impact on their regular budget.

#### PROGRAM DIRECTORY AND PERFORMANCE MEASURES

A comprehensive directory of AB109 programs, funded with ongoing and one-time funds, has been developed to report on each department's quarterly expenditures and progress toward meeting stated annual performance targets. The current quarterly report reflects the department's performance status as of January 1, 2014, and the first quarter reimbursed claims (Attachment II).

#### FISCAL AUDIT SCHEDULE

The A-C has concluded a preliminary review of each department, including interviewing department managers and staff and reviewing expenditure reports, claims, and supporting documentation. The A-C subsequently developed a list of five factors to evaluate the risk presented by each department: 1) the amount of budgeted AB109



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funding; 2) each department's internal controls and methodology for tracking and reporting expenditures; 3) the type of service provided; 4) the materiality of prior audit findings; and 5) the types of AB109 related expenditures incurred by each department.

Based on these audit factors, the A-C proposes the following fiscal audit schedule:

<b><u>FY 2013-14</u></b>	
January to March 2014	April to Jun 2014
<b>Relative High Risk Departments:</b> <ul style="list-style-type: none"> <li>• Mental Health</li> <li>• Probation</li> <li>• Sheriff</li> </ul>	<b>Relative Lower Risk Departments:</b> <ul style="list-style-type: none"> <li>• Alternative Public Defender</li> <li>• District Attorney</li> <li>• Executive Office of the Board (CCJCC and ISAB)</li> <li>• Fire</li> <li>• Health Services</li> <li>• Public Defender</li> <li>• Public Health</li> </ul>
<b><u>FY 2014-15*</u></b>	
Quarterly Audits	Annual Audit
<ul style="list-style-type: none"> <li>• Mental Health</li> <li>• Probation</li> <li>• Sheriff</li> </ul>	<ul style="list-style-type: none"> <li>• Alternative Public Defender</li> <li>• District Attorney</li> <li>• Executive Office of the Board</li> <li>• Fire</li> <li>• Health Services</li> <li>• Public Defender</li> <li>• Public Health</li> </ul>

\* The audit schedule for each department is subject to FY 2013-14 audit findings.

### **INDEPENDENT PROGRAM EVALUATIONS**

The Countywide Criminal Justice Coordinating Committee (CCJCC), in consultation with the CEO, is developing a Request for Statement of Qualifications (RFSQ) for criminal justice research and evaluation services. The RFSQ will be used to establish a Master Agreement list of vendors to provide independent expert consultant services. The Master Agreement list will be made available to all County departments and partner agencies to evaluate both AB109 programs and other criminal justice related programs.

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We had anticipated presenting the Master Agreement for Board approval in February 2014; however, some complications were encountered as to how departments would administratively access a CCJCC Master Agreement. These contract oversight issues are currently under review by the A-C and County Counsel. We will keep your Board apprised as we make progress toward releasing the RFSQ.

Should you have any questions, please have a member of your staff contact either Georgia Mattera, Public Safety, at (213) 893-2374 or David Turla, Public Safety, at (213) 974-1178.

WTF:GAM:SW  
DT:llm

c: Executive Office, Board of Supervisors  
County Counsel  
District Attorney  
Sheriff  
Alternate Public Defender  
Auditor-Controller  
Fire  
Health Services  
Mental Health  
Public Defender  
Public Health  
Probation